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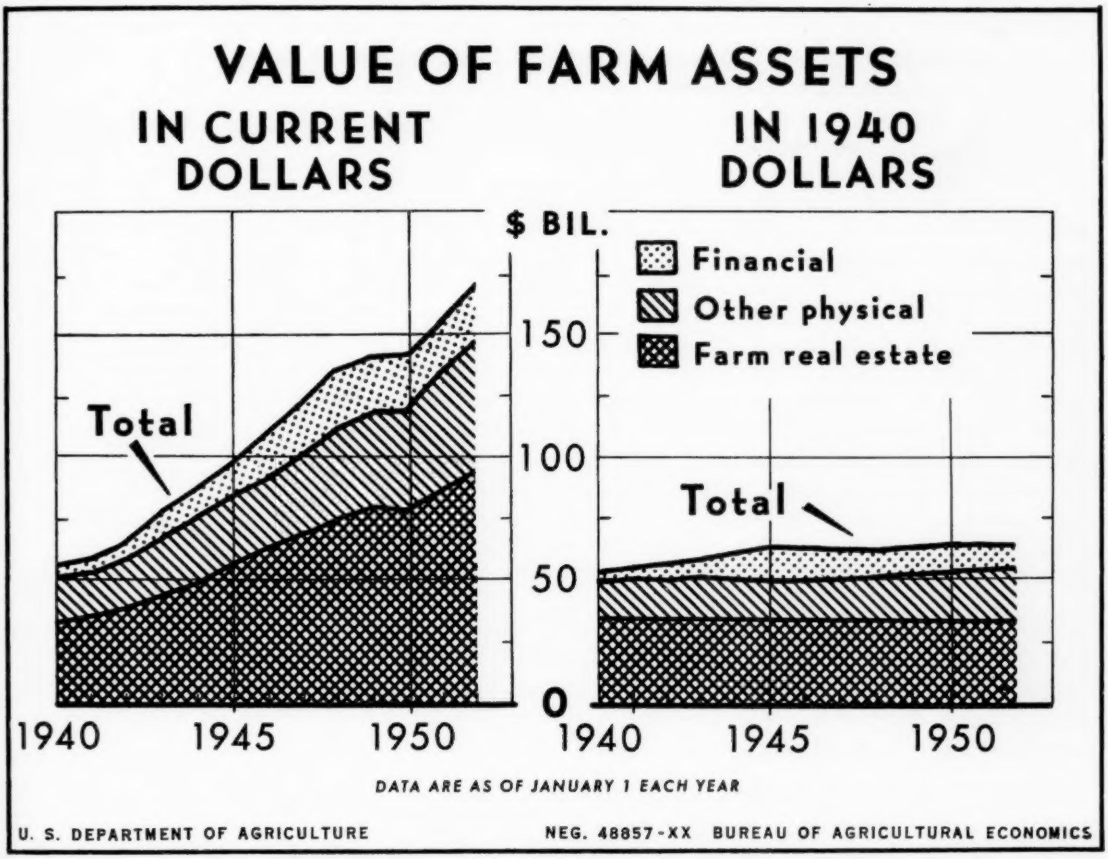

CONTENTS

AGRICULTURAL FINANCE REVIEW

Approved by the Outlook and Situation Board, October 21, 1953

Farm Financial Outlook for 1954

The American economy, as a whole, continues prosperous. National income is at a record level, unemployment is low, and the domestic demand for most kinds of goods, including farm products, remains high. However, the decline in foreign demand has been a significant weakness in the farm market and burdensome surpluses of some farm products have accumulated. No marked change in either domestic or foreign demand is anticipated for 1954. This is the setting in which agriculture finds itself in late 1953.

As a result of continued high production, and softened export demand for some farm products, agricultural prices are lower than a year ago. But production costs show little tendency to decline. Severe drought has aggravated the situation in large areas of the South and Southwest. For the United States, farm income - both gross and net - is moderately lower in 1953 than in 1952. Some further decline in gross income is anticipated in 1954, but realized net income may be near the 1953 level. These factors already are having a direct effect on the financial condition of farm people. Moreover, the psychological impact of the changing economic situation is having important effects. Many farmers are unwilling to pay as much for land, are more hesitant to invest in equipment and improvements, are attempting to maintain cash reserves, and are curtailing their use of credit. The net result of these various factors will be reflected in the balance sheet of American agriculture.

Total assets of American agriculture, including all physical assets and the financial assets owned by farm operators, are expected to be valued at $156 billion on January 1, 1954 (table 1). This will be about 5 percent less than a year earlier, but 46 percent more than the value of these assets at the beginning of 1946, the first postwar year.

The total value of physical farm assets is expected to decline during 1953. Farm real estate, which accounts for more than half of all assets in the balance sheet, is expected to decline nearly 7 percent. A drop of 18 percent - the largest decline for any type of farm asset - is expected in the value of livestock. Only a small decline in the total value of crops is expected. The value of machinery and motor vehicles will remain about the same at the beginning of 1954 as at the beginning of 1953.

Financial assets of farmers are expected to be slightly higher on January 1, 1954 than a year earlier. The more liquid financial assets of farmers - bank deposits, currency, and United States savings bonds - will total about the same at the end as at the beginning of 1953. Their

Table 1.- Balance sheet of agriculture, January 1, 1953, and estimated for January 1, 1954

Item	January 1, 1953	Estimated for January 1, 1954	Percentage change 1/
	Billion dollars	Billion dollars	Percent
ASSETS			
Physical assets:			
Real estate---------------	92.3	86.0	-6.8
Non-real-estate----------	2/ 50.6	48.3	-4.4
Financial assets-----------	21.9	22.1	+ .8
Total-----------------	2/ 164.8	156.4	-5.1
CLAIMS			
Liabilities:			
Real estate debt---------	7.1	7.8	+9.3
Non-real-estate debt-----			
Loans held and guaranteed by Commodity Credit Corporation---	1.2	1.7	+49.2
Other------------------	7.6	7.2	-5.6
Total liabilities-----	2/ 15.9	16.7	+5.1
Equities------------------	2/ 148.9	139.7	-6.2

1/ Computed from unrounded data.
2/ Revised.

composition, however, may change somewhat. If present tendencies are continued, the money farmers have on hand and in checking accounts will decrease, while their time deposits and United States savings bonds will increase slightly.

An increase of $800 million, or 5 percent, in farmers' debts is indicated for 1953. Farm real estate debt is expected to rise from $7.1 billion to $7.8 billion and non-real-estate debt from $8.8 to more than $8.9 billion. All of the increase in non-real-estate debt will probably result from a sharp expansion of price-support loans held or guaranteed by the Commodity Credit Corporation. Other non-real-estate loans are declining as a result of lower livestock prices, fewer purchases of farm machinery, a more cautious attitude on the part of both borrowers and lenders, and some conversion to real estate mortgages.

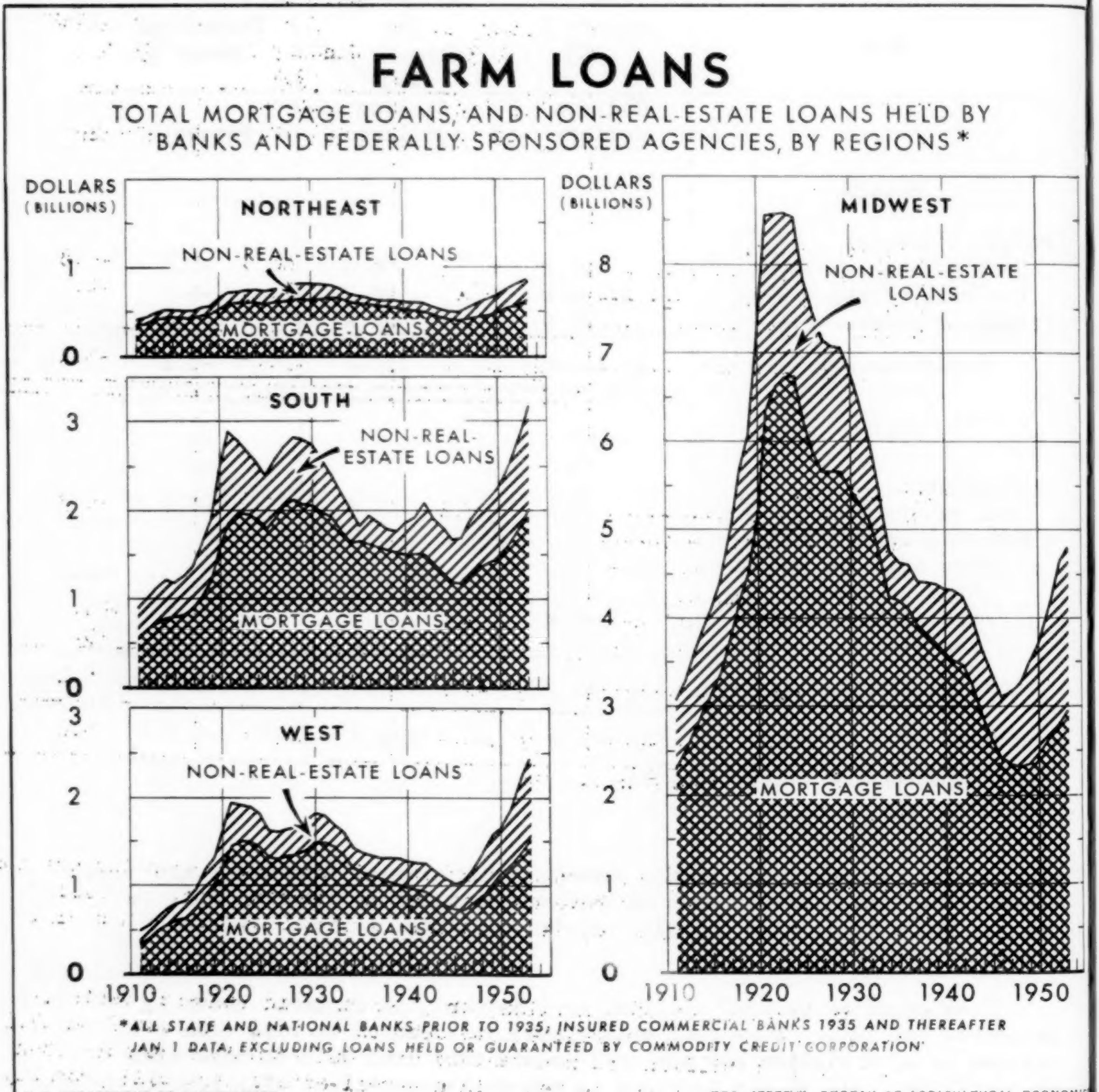
FARM LOANS
TOTAL MORTGAGE LOANS, AND NON-REAL-ESTATE LOANS HELD BY BANKS AND FEDERALLY SPONSORED AGENCIES, BY REGIONS *
DOLLARS (BILLIONS)
NORTHEAST
NON-REAL-ESTATE LOANS
MORTGAGE LOANS
SOUTH
NON-REAL-ESTATE LOANS
MORTGAGE LOANS
WEST
NON-REAL-ESTATE LOANS
MORTGAGE LOANS
MIDWEST
NON-REAL-ESTATE LOANS
MORTGAGE LOANS
1910 1920 1930 1940 1950
*ALL STATE AND NATIONAL BANKS PRIOR TO 1935; INSURED COMMERCIAL BANKS 1935 AND THEREAFTER
JAN. 1 DATA; EXCLUDING LOANS HELD OR GUARANTEED BY COMMODITY CREDIT CORPORATION
U. S. DEPARTMENT OF AGRICULTURE
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FIGURE I

Because of rising debts and declining values of farm assets, the equities of farmers and others in American agriculture are expected to shrink about $9 billion during 1953. This will be nearly twice the decrease that occurred during 1952.

The declining value of assets is resulting primarily from lower prices. In physical terms no such decrease is occurring. Farm real estate, which is expected to shrink more than $6 billion in value during 1953, will consist of the same farms in substantially the same physical condition as at the beginning of the year. Livestock numbers are expected to be down only slightly - much less than would be indicated by the drop of more than $2 1/2 billion in current values. Fewer sheep, hogs, and work animals seem likely, whereas the number of cattle is expected to be about the same at the end as at the beginning of 1953. A somewhat larger quantity of crops owned by farmers, both on farms and in off-farm storage, is forecast for January 1, 1954 as compared with a year earlier. More of the crops, however, will be under price-support loans to the Commodity Credit Corporation. Although the rate of new investment in farm machinery is lower than last year, purchases are sufficient to offset depreciation and price adjustments on existing vehicles and equipment.

The balance sheet probably will reflect some further declines in values of assets and equities during 1954 but they will remain higher than in most recent years. It is too early to predict the trend in value of crop and livestock inventories, but land values are likely to continue their adjustment to the lower farm incomes, and farmers probably will restrict investment in farm and home improvements. The liquid savings accumulated by farm people are not expected to show any considerable change. Short-term debts of farmers will probably decline in 1954 but real estate mortgage debts are expected to increase further.

Implications of the Outlook

The prime factor in the current outlook is that agricultural prices, values, and incomes have receded from the high levels of 1951 and are likely to remain lower unless markets for farm products can be expanded. This change has reduced farm equities and the value of collateral for farm loans during the last 2 years. It is now calling for a closer adjustment of agricultural production to prospective markets and for adjustment of farm expenditures - and in some cases, farm debts - to reduced income.

Beef cattle producers are among those hardest hit by the price declines. Cattle feeders have taken substantial losses on fat cattle marketed this year. Ranchers have sustained drastic reductions in prices of feeder cattle and in the value of their breeding herds. In drought areas many have had to liquidate inventories because of lack of feed. Moreover, many livestock producers will be confronted by unusual expenses for winter feed because of the failure of their own pastures and feed crops. Special rehabilitation financing has been, and may continue in 1954 to be, necessary on many farms in severe drought areas. (For further discussion see Non-Real-Estate Debt section.)

Farmers who are not heavily in debt will be able to adjust their farming operations and their living expenses to moderately lower incomes. A debt-free owner-operator can slacken the production pace maintained in recent years. He can perhaps seed more of his land to hay and pasture, hire less labor, and cut his operating expenses in other ways. Frequently his gross income would be reduced more than his expenses, but he might still feel that this is a good time to build up soil productivity and to prepare for increased production in later years, when prospects might be more favorable.

On the other hand, young farmers, and others who have purchased, stocked, or equipped farms with small downpayments will feel the pressure to maintain operations at high levels in order to meet their interest and amortization charges in addition to other expenses. Unfortunately, in attempting to cut operating expenses they may reduce purchases of feed, fertilizer, insecticides, and other supplies to a point where, because of lower crop yields and livestock production, gross income will be reduced more than operating expenses.

By careful budgeting it may be feasible, however, to cut some operating expenses without suffering proportionate reductions in income. For example, it might be possible on some farms to get along with less hired labor, to depend more on home-produced feed of high quality, and to adopt production practices that will increase efficiency.

In many cases, close teamwork between borrower and lender will be required to work out their situations. Fortunately, most lending institutions are able to extend maturities and to advance additional funds if necessary or desirable. It doubtless will prove desirable for some farmers to fund their short-term debts into longer term mortgages so that they will have smaller annual payments and more time to complete payment of their obligations. Others may find it desirable to reduce their obligations, even at some sacrifice in living standards, in order to make their financial positions more secure.

Although the decline in farm income has made it more difficult for farmers to accumulate financial reserves, it apparently has caused many farmers to recognize more clearly than before that they need such reserves. Time deposits and United States savings bonds owned by farmers have increased during the last 2 years despite the drop in farm income. However, a large proportion of farmers still possess wholly inadequate reserves. These families need to consider whether they can pare their expenditures for living or for postponable improvements in order to accumulate some liquid savings as a protection against family emergencies, crop failures, or other unfavorable developments.

One type of investment that farmers will need to maintain at relatively high levels is farm machinery and equipment. Farms are currently well equipped and some postponement of new purchases is possible during the next year or two. Nevertheless, each year machinery is wearing out or becoming obsolete. As an offset to this depreciation farmers should earmark part of their income as a reserve for eventual replacement. If the cost of equipment is divided by the number of years of expected life

farmers will find the annual charge substantial. The increase being made by farmers in bank savings accounts and in United States savings bonds may be partly a reserve for machinery replacement. Undoubtedly there are many, however, who have as yet failed to recognize the need for such reserves.

With a loss of more than $6 billion in the total value of farm real estate likely during 1953, and some further decline indicated for 1954, the proper course of action concerning investments in farm real estate will become an increasingly difficult decision for many farm people. With respect to present owners considering the sale of farm property, many will find that offering prices have receded from the peak level of 1952. Also, fewer cash sales will be possible and many prospective buyers will have less cash available for a downpayment. With most commercial lenders now screening farm loan applications more carefully, sellers are likely to be asked more frequently to assume a part of the financing required by the buyer, often in the form of a second mortgage. Although junior liens have a definite place in farm financing, they can become a high-risk investment to the seller when market values are declining.

From the standpoint of the prospective buyer, it is more important now than when farm prices and land values were rising to analyze the debt-paying capacity of the farm and to have adequate long-term financing. For those farmers who are able to make a downpayment of as much as half of the purchase price, there is little in the outlook to discourage the purchase of land needed to make an efficient operating unit. But the prospective buyer needs to assure himself that the land will clearly add to production efficiency and to net income under prospective price-cost relationships. Tenants who are able to make a substantial downpayment on the purchase of a productive farm and who cannot rent a farm of comparable income capacity may find little advantage in delaying the step toward ownership, even though some saving in the initial cost of a farm might result from waiting.

Property taxes have become an increasing burden affecting farmers' ability to pay debts and accumulate savings. These taxes have been increasing almost every year since 1940. It is anticipated that farmers will pay about 2 percent more real and personal property taxes in 1954 than in 1953. Although farmers will pay smaller income taxes in 1954 than in 1953, because of lower farm income in 1953, no immediate relief from higher real property taxes is in sight.

Farm Real Estate

The total value of farm real estate, the largest asset item, is expected to decline to about $86 billion by January 1, 1954. This would be about $6 billion, or 7 percent less than a year earlier, and near the 1951 level. The moderate decline in values that has occurred thus far in 1953 is largely a reflection of lower prices for farm products. The decline has been somewhat larger than average in areas where farm income was most seriously affected by dry weather and the sharp drop in cattle

prices (figs. 2 and 3). Values this July were 10 percent below a year earlier in Texas and Colorado. Other nearby States, as well as Iowa and Kentucky also showed larger than average declines. The national index of average value per acre as of July 1953 was 124 (1947-49=100), 2 percent below March, and 4 percent below a year earlier.

Indications from a survey of farm real estate dealers and others in early October are that the downward trend in land values has continued since July and that a further decline is expected in 1954. The effect of the drought and the sizable losses sustained by many livestock producers are significant price-depressing factors in the farm real estate market this fall. Farm real estate reporters noted a significant decline in the number of prospective buyers with sufficient cash for a downpayment. Nonfarm buyers and investors have also become less active in the market and fewer cash sales are made than a year ago. Buyers were becoming more reluctant to assume large debts in view of recent price trends and future uncertainties. Many lenders have also become more selective in making loans, and in some areas this tightening of farm-mortgage credit is acting as a deterrent to many sales of farm property that would have been made under conditions prevailing 2 years ago.

In many respects, the current farm real estate situation is similar to that prevailing during the fall of 1949. At that time, prices of farm products had been declining for more than a year and prospective buyers were showing increased resistance to asking prices for farms in view of the uncertain price outlook. As a result, the volume of sales during 1949 was down about 10 percent from the previous year, and land values as of November 1949 were 6 percent below a year earlier.

The current situation reflects the two additional factors of widespread drought and the sharp break in cattle prices. As a result, dealers report little activity in the farm real estate market and a growing resistance on the part of buyers to current asking prices. Although top-quality farms are still in demand at near-peak prices, the greatest pressure on asking prices is on the low and medium grade farms. Credit to finance such properties has tightened appreciably more than for the better grade farms as lenders have increased their selectivity in making loans. Both the quality of the farm offered for security and the general financial strength of the borrower are receiving increased attention. Although no substantial increase in the number of farms on the market is reported in most areas, a few owners who purchased at near-peak prices and assumed large debts for stock and equipment are reported to have sold out in order to recover as much of their equity as possible. The number of foreclosures has not increased significantly, however, as the financial reserves accumulated in recent years have been sufficient to carry over many of those whose income was most seriously reduced by drought or lower cattle prices. With sales activity at a new recent low in most areas, it may be several months before a new market level is established.

Another factor of importance to prospective buyers of farm lands is the possible effects of acreage allotments for cotton and wheat on future levels of farm real estate values. Most local observers agree that reduced acreages of wheat and cotton in 1954 will result in less demand

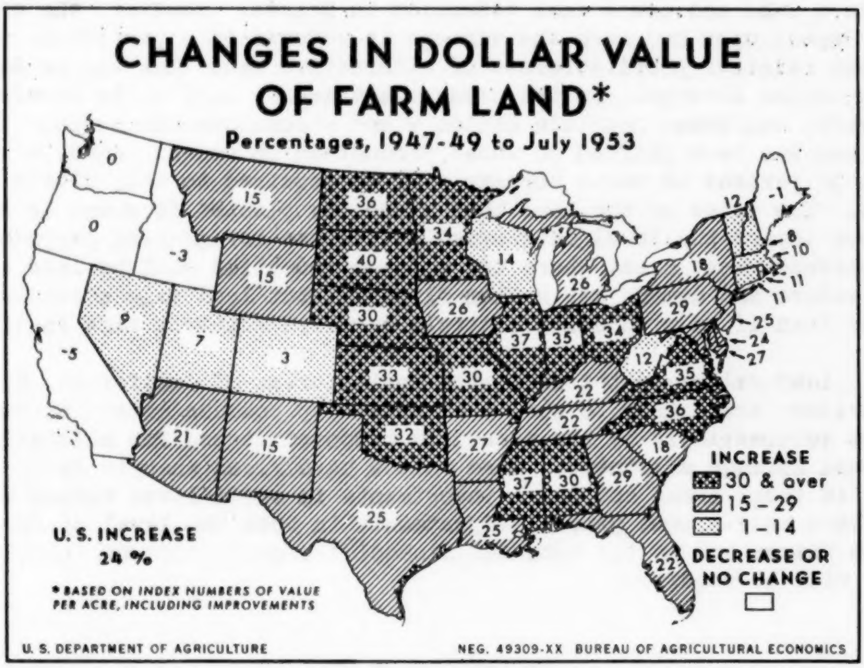

FIGURE 2

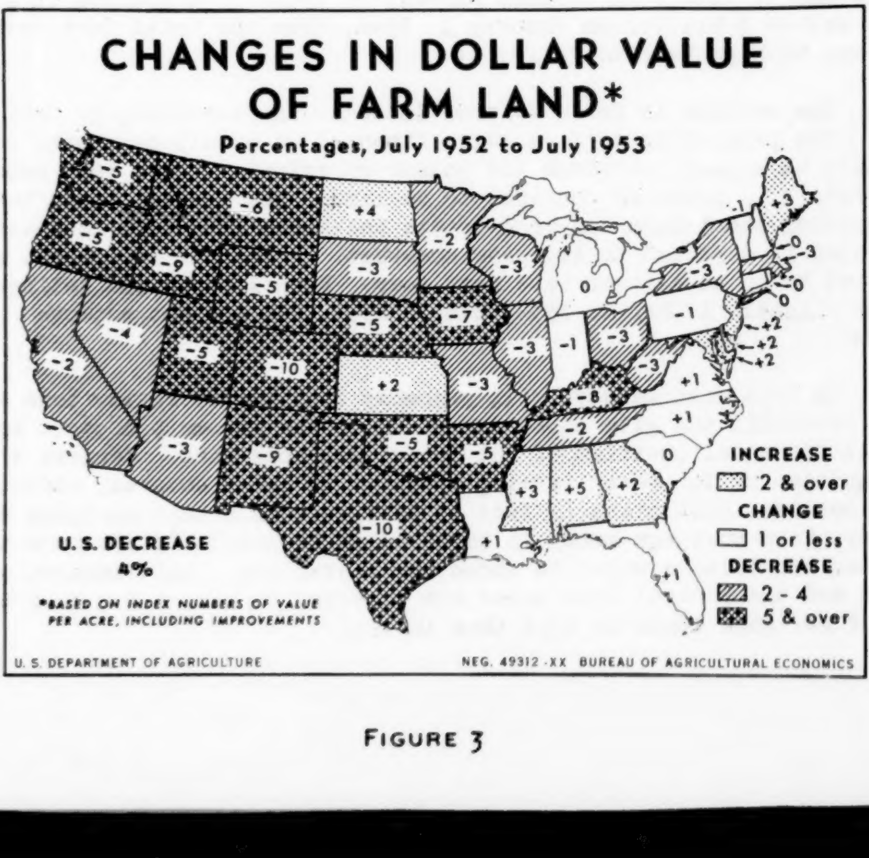

FIGURE 3

for farm land and cause some reduction in prices. However, the effect will depend upon how much the acreage is reduced in a particular area and the relative profitableness of alternative uses that can be made of the diverted acreage. In the newer wheat areas, such as in Wyoming, Idaho, Colorado, and other Mountain States where a considerable acreage of grazing land has been shifted to wheat production in recent years, a cut of 25 to 30 percent in wheat acreage will be required to stay within allotments. The value of the land that cannot be planted to wheat is likely to move toward the level determined by its use for grazing purposes. In established wheat areas where the acreage reduction will be less severe, land values and demand may weaken slightly, but land values should remain higher than if no production controls or price supports were in effect.

Land values in the irrigated cotton areas of California, New Mexico, and Arizona are likely to show a sizable drop because cotton acreage would be cut substantially by the presently proposed method for allocating the national acreage allotment. Land values have risen sharply in recent years in these areas and large investments in specialized cotton equipment have been made. Some general adjustments in both the level of farm real estate values and in the internal financial organization of individual farms will be required.

Farm-Mortgage Debt

Farm-mortgage debt is increasing in 1953 for the eighth consecutive year, and at the end of the year it will probably total about $7.8 billion. This compares with $7.5 billion on July 1, 1953, $7.1 billion on January 1, 1953, and $4.8 billion on January 1, 1946, when the total farm-mortgage debt was at a postwar low (fig. 4).

The outlook is for a further increase in farm-mortgage debt in 1954. The proportion of farm sales financed on credit next year will probably be higher, although the volume of voluntary farm real estate transfers will probably continue to decline. The present trend toward refinancing short-term non-real-estate debt into long-term real-estate mortgages is expected to increase somewhat. Principal repayments are expected to be at a lower rate next year. Foreclosures and delinquencies may be slightly higher in 1954 than in 1953, but are not expected to be serious.

In 1954 most lenders will probably continue to review loan applications carefully and give close attention to the income prospects and overall financial position of the individual applicant. Farmers with low equities or in poorer farming areas or in areas severely affected by price declines will probably find it difficult to obtain mortgage credit. However, farm-mortgage money is expected to be generally adequate in 1954 at rates and terms similar to those now prevailing. Life insurance companies and the Federal land banks are expected to make a larger proportion of mortgage loans in 1954 than in 1953.

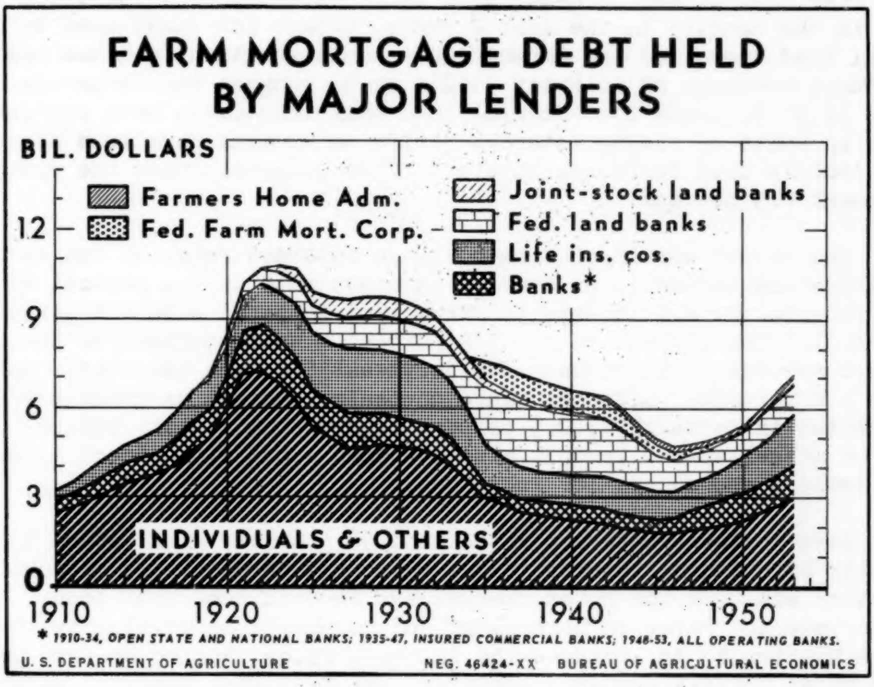

FIGURE 4

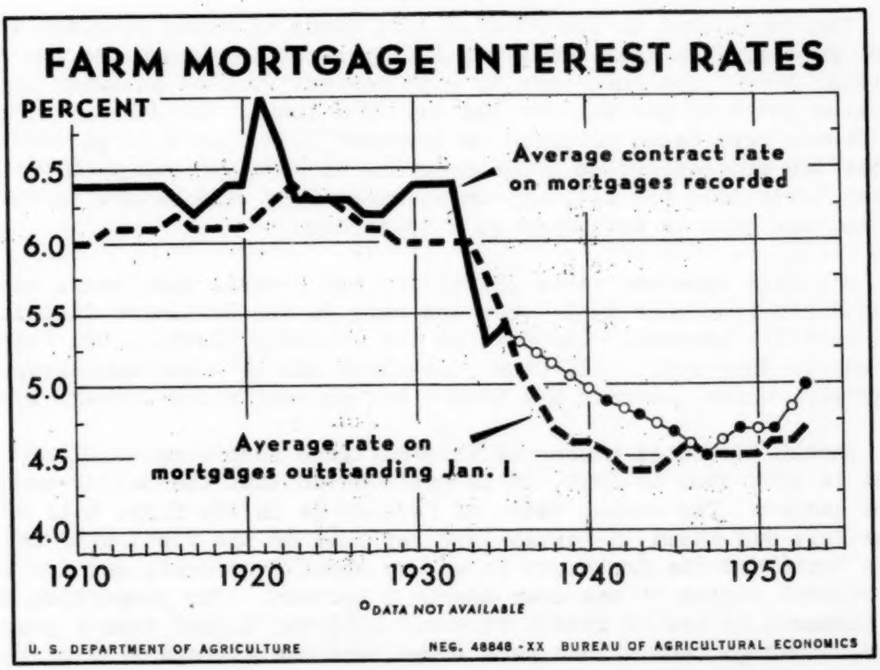

FIGURE 5

The cost of new farm-mortgage money has generally increased in all areas in the country in the last 2 years, except for loans made by the Federal land banks and the Farmers Home Administration, and has followed the upward movement of interest yields on Government and corporate securities (fig. 5, table 2). Federal land bank loan rates have remained steady in spite of rising interest yields on Federal farm loan bonds. Those lenders that increased interest rates generally made the upward adjustment 0.5 percent.

The latest survey of farm-mortgage interest rates by the Farm Credit Administration indicates an average interest rate of 5.0 percent on mortgages recorded by all lenders in March 1953 compared with 4.7 percent in March 1951. The highest rate - 5.3 percent - was reported for the South; the West averaged 5.1 percent; the Northeast 5.0; and the North Central region 4.6 percent. Life insurance companies charged an average rate of 4.8 percent in March 1953, 0.5 percent higher than 2 years before. The rate for miscellaneous lenders also averaged about 0.5 percent higher, and other lenders showed smaller increases.

Farm-mortgage interest rates in 1954 probably will depend to a considerable extent upon interest rates paid on Government and corporate securities and upon the rates charged for Federal land bank loans. The rise in interest rates on Government and corporate securities in the last 2 years has tended to increase the interest rates charged on farm mortgages by the major private lenders. However, the fact that interest rates on farm loans of the Federal land banks have not been raised has tended to limit the increases in farm-mortgage interest rates of other lenders.

The total cost to the Federal land banks of money obtained from sale of Federal farm loan bonds was 1.74 percent per annum for the issue of October 1949. The cost rose to 2.55 percent for the November 1951 bond issue and 2.68 percent for the May 1952 issue. In January 1953 money from a bond issue maturing in November 1954 cost 2.72 percent, and the cost for proceeds of an issue maturing in May 1958 was 2.88 percent. The last issue sold for delivery in November 1953 will mature in February 1955, and the cost is estimated at 2.75 percent.

Mortgage interest rates charged by the Federal land banks have been unchanged since October 1951, when the rate in the Baltimore district was raised to 4 1/2 percent. The rate in the Columbia district was raised to 5 percent in July 1951. All other districts charge 4 percent except Springfield, where the rate has been 4 1/2 percent since January 1949.

Though the total number of farm-mortgage recordings will probably be less in 1953 than in 1952, it is anticipated that the dollar amount will be larger. The dollar value of recordings in the first half of 1953 for the West was about 16 percent greater than in the first half of 1952; for the South and the Northeast it was up about 7 percent; and for the North Central region it was down nearly 2 percent. The proportion of farm sales financed by use of credit in early 1953 was higher than a year earlier, although land values were lower, and the average size of farm-mortgage recording continued to increase in the first half of 1953.

Table 2.- Average contract interest rates on farm mortgages recorded during March 1951 and 1953, by region and by type of lender 1/

Region	Insurance companies	Banks and trust companies	Individuals	Federal land banks	Miscellaneous lenders	All lenders
	Percent	Percent	Percent	Percent	Percent	Percent
Northeast:						
1951------------	4.90	4.92	4.79	4.28	4.76	4.82
1953------------	4.98	5.16	4.97	4.50	5.32	5.04
North Central:						
1951------------	4.12	4.82	4.35	4.00	4.39	4.35
1953------------	4.70	5.07	4.63	4.00	4.77	4.65
South:						
1951------------	4.63	5.94	5.58	4.11	4.87	5.22
1953------------	4.91	5.96	5.59	4.29	5.29	5.30
West:						
1951------------	4.56	5.79	5.22	4.00	4.58	5.04
1953------------	4.72	6.01	5.07	4.00	5.42	5.09
United States:						
1951------------	4.29	5.29	4.90	4.05	4.69	4.74
1953------------	4.77	5.52	5.02	4.11	5.24	4.97

1/ Based on farm-mortgage recording data obtained by secretary-treasurers of national farm loan associations, county recorders, abstractors, and others who submitted reports showing the contract interest rates charged on farm mortgages recorded in sample counties during March 1951 and 1953.

Farm Credit Administration, Economic and Credit Analysis Division.

Reports from various lenders indicate increased selectivity and more thorough and conservative review and screening of loan applications. This appears to have introduced an element of credit tightening in some areas and for the less desirable risks. However, in the first half of 1953 the dollar amount of mortgages recorded for all major groups of lenders, except individuals, was above the first half of 1952. The proportion of total mortgage recordings was higher for the Federal land banks and insurance companies and lower for commercial banks and individual lenders.

In 1953 a high proportion of Federal land bank and life insurance company loans were for refinancing and debt consolidation purposes. Most of the refinancing was of real-estate mortgages, although reports from some lenders indicate an increase in the refinancing of short-term debt

and chattel mortgages into long-term real-estate mortgages. About 12 percent of the proceeds of a limited sample consisting of the last 1,200 Federal land bank loans made before June 15, 1953 were for the purpose of refinancing non-real-estate debt. This compares with 11 percent on June 15, 1952 and 10 percent on June 15, 1951. The proportion used to refinance real-estate mortgage debt, including refinancing of Federal land bank loans, on June 15, 1953 was 44 percent, not significantly different from the same dates in 1952 and 1951.

Generally some increase is expected next year in the refinancing into long-term farm-mortgage debt of short-term non-real-estate debt and also of farm real estate mortgages written for short terms.

In spite of lower prices and incomes, farmers in 1953 are generally meeting their scheduled mortgage principal and interest payments on time. Some decline is reported in payments of principal ahead of time. Most lenders report that delinquencies are few and are not a problem. Repayment difficulties have appeared, however, in drought areas. Cattle producers have been seriously affected by lower cattle prices. Potato growers likewise have suffered a severe drop in income, and most farmers have been affected by a continued cost-price squeeze.

In areas severely affected by drought or lower prices lenders are exercising considerable caution in making new loans. Where present borrowers are in difficulties, individual arrangements are worked out; these usually provide for postponement or temporary reduction of payments. Even in drought regions, however, delinquencies so far are reported small, and foreclosures are negligible. This may be partly because farmers have used previous savings to make their loan payments. Repayment difficulties may increase slightly in 1954 because a small further decline in farm income is expected in some areas and because some farmers have used most of their savings to meet debt obligations this year.

A farm-mortgage debt of $7.8 billion on January 1, 1954 would represent an increase of about 9 percent during 1953. This would be the largest percentage increase in any year since 1920. The estimated debt of $7.8 billion on January 1, 1954 would be 64 percent above the $4.8 billion outstanding in 1946, but would be 28 percent below the high point of $10.8 billion owed by farmers in 1923. Increases in farm-mortgage debt in recent years have varied considerably by geographic regions. From January 1, 1946 to January 1, 1953, the debt increased 104 percent in the West, 71 percent in the South, 53 percent in the Northeast, and only 22 percent in the North Central region (table 3 and fig. 6). In 1952 farm-mortgage debt rose 11 percent in the South and in the West, 8 percent in the Northeast, and 6 percent in the North Central region (fig. 7).

Farm-mortgage debt compared with farm real estate values is still relatively low. At the beginning of 1953 total farm-mortgage debt was 7.7 percent of the total value of farm real estate, compared with 7.0 percent in 1952, 7.7 percent in 1946, and 19.6 percent in 1940. Estimated interest charges on farm-mortgage debt in 1953 represent about 1 percent of farmers' gross receipts. Aggregate figures are not indicative of individual farmers, however. Many farmers who bought real estate, livestock,

Table 3.- Farm-mortgage debt: Total outstanding and percentages held by major lenders, by principal regions, January 1, 1940 and 1945-53 1/

Region	Total farm-mortgage debt	Distribution by lender						
		Federal land banks	Federal Farm Mortgage Corporation	Joint-stock land banks	Farmers Home Administration	Life insurance companies	Banks 2/	Individuals and others
	1,000 dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent
United States:								
1940	6,586,399	30.5	10.8	1.4	0.5	15.0	8.1	33.7
1945	4,940,915	24.5	7.0	.1	3.9	19.0	9.1	36.4
1946	4,760,464	22.7	5.0	.1	3.8	18.7	10.7	39.0
1947	4,896,970	19.9	3.0	3/	3.9	18.1	14.0	41.1
1948	5,064,245	17.6	2.1	3/	3.9	18.9	16.6	40.9
1949	5,288,331	16.4	1.5	3/	3.6	19.6	17.0	41.9
1950	5,579,278	16.2	1.1	3/	3.4	21.0	16.8	41.5
1951	6,071,345	15.6	.7	---	3.5	22.4	16.6	41.2
1952	6,588,270	15.1	.5	---	3.5	23.4	15.9	41.6
1953	7,140,485	15.0	.3	---	3.6	23.8	15.8	41.5
Northeast:								
1940	522,654	19.1	7.6	1.3	.1	.2	11.2	60.5
1945	408,653	18.2	6.7	---	1.5	.6	11.8	61.2
1946	403,808	17.1	5.8	---	1.4	.7	13.0	62.0
1947	441,448	15.7	3.4	---	1.8	1.1	17.5	60.5
1948	472,451	14.3	2.4	---	2.1	2.3	23.6	55.3
1949	497,431	13.5	1.7	---	2.0	3.4	24.2	55.2
1950	515,100	13.2	1.2	---	2.0	4.3	24.7	54.6
1951	539,134	12.8	.9	---	2.1	5.0	25.2	54.0
1952	573,756	12.3	.6	---	2.1	5.6	24.9	54.5
1953	618,762	12.0	.4	---	2.1	5.9	28.1	51.5
North Central:								
1940	3,599,505	30.5	10.7	1.3	.2	19.5	6.3	31.5
1945	2,622,978	25.0	6.4	.2	2.2	26.5	8.4	31.3
1946	2,435,290	23.9	4.2	.1	2.1	26.6	9.9	33.2
1947	2,365,483	21.2	2.5	.1	2.1	26.1	12.8	35.2
1948	2,320,534	18.5	1.8	3/	2.1	25.8	15.7	36.1
1949	2,354,056	17.4	1.3	3/	2.0	25.2	16.7	37.4
1950	2,471,014	17.1	1.0	3/	1.9	26.0	16.5	37.5
1951	2,647,950	16.8	.7	---	2.0	27.2	16.9	36.4
1952	2,819,679	16.4	.5	---	2.2	28.4	16.4	36.1
1953	2,982,575	16.8	.3	---	2.3	28.8	16.0	35.8
South:								
1940	1,502,187	35.3	12.0	2.1	1.4	14.8	8.5	25.9
1945	1,184,935	26.7	8.1	.1	10.0	15.8	9.8	29.5
1946	1,174,211	23.9	6.1	3/	9.6	15.3	12.0	33.1
1947	1,259,012	21.0	3.6	3/	9.3	15.1	16.3	34.7
1948	1,342,810	18.7	2.5	3/	8.9	17.6	18.4	33.9
1949	1,412,061	17.7	1.7	---	8.1	19.8	18.6	34.1
1950	1,470,261	17.9	1.2	---	7.7	22.3	18.9	32.0
1951	1,644,845	16.8	.8	---	7.6	23.4	17.8	33.6
1952	1,814,082	16.1	.5	---	7.3	24.1	16.8	35.2
1953	2,011,430	15.6	.3	---	7.2	24.9	16.4	35.6
West:								
1940	962,053	29.4	11.3	.7	.1	6.3	12.5	39.7
1945	724,349	22.6	7.6	3/	1.6	7.4	8.9	51.9
1946	747,155	19.8	5.7	3/	1.5	8.1	9.8	55.1
1947	831,027	17.2	3.2	3/	1.7	9.1	11.9	56.9
1948	928,450	15.1	2.2	3/	1.7	12.5	12.6	55.9
1949	1,024,783	13.8	1.5	---	1.7	14.2	12.3	56.5
1950	1,122,903	13.5	1.0	---	1.6	16.1	11.2	56.6
1951	1,239,416	12.9	.7	---	1.9	17.9	10.5	56.1
1952	1,380,753	12.1	.5	---	2.1	19.6	9.8	55.9
1953	1,527,718	11.8	.3	---	2.2	20.1	9.4	56.2

1/ 1945-52, revised series.
2/ 1940, 1945-47, insured commercial banks; 1948 to date, all operating banks.
3/ Less than 0.05 percent.

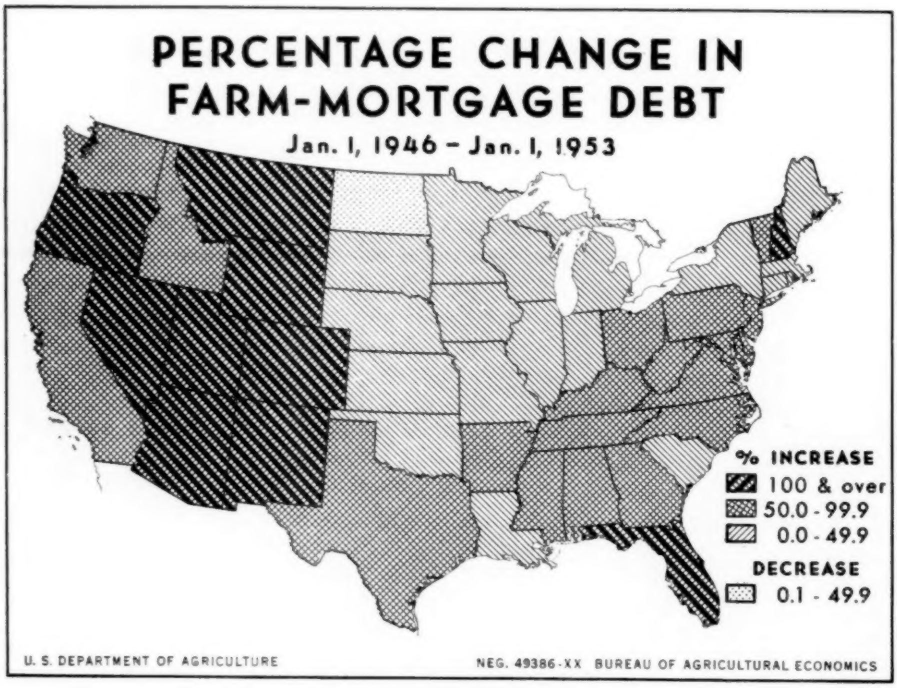

FIGURE 6

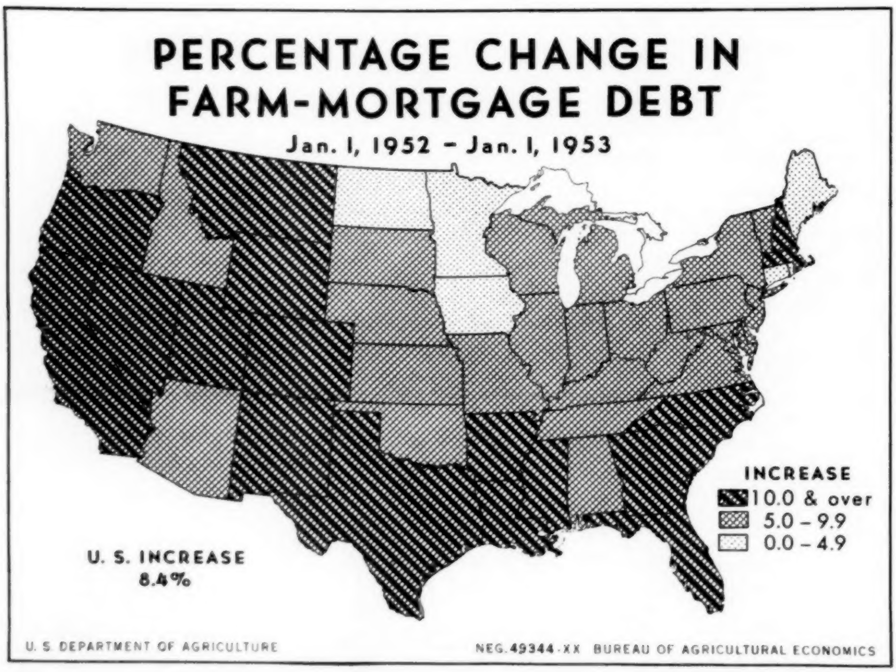

FIGURE 7

and machinery at high prices in recent years probably find that interest and scheduled principal payments require a substantial share of their gross receipts. Serious difficulty may develop for those farmers with high debt-gross income ratios, particularly in livestock and drought areas.

FIGURE 8

Non-Real-Estate Debt

Non-real-estate debt owed by farmers to all types of lenders and creditors on July 1, 1953 (excluding nonrecourse Commodity Credit Corporation loans) was estimated at $8.0 billion, of which $4.6 billion was owed to banks and federally sponsored lenders and $3.4 billion to miscellaneous lenders. This total non-real-estate debt is nearly 4 percent below the all-time high of $8.3 billion reached on July 1, 1952.

The decline in non-real-estate debt is significant because it was the first break (other than seasonal) in the upward trend that has been under way throughout the postwar period. The continuous sharp rise since 1945 is indicated by the loans held by banks and federally sponsored agencies (fig. 9). The loans of such lenders on July 1, 1953 were still more than 2 1/2 times the amount on July 1, 1945. By regions, the 1953 level compared with 1945 was 167 percent higher in the Northeast, 143 percent higher in the South, 148 percent higher in the Midwest, and 180 percent higher in the West (fig. 10).

The largest decreases between July 1952 and July 1953 were in the West North Central and Mountain States (fig. 11). Although decreases occurred in only 20 States, the declines were relatively great. The drop in Kansas was 21 percent, in Iowa, Missouri, and Nebraska about 16 percent each, and in Colorado 11 percent. Increases in non-real-estate loans continued during the year in 28 States - mostly in the Northeast and South. However, only Maine, Rhode Island, and Connecticut had increases of more than 10 percent.

The main factor bringing about the reduction of short-term debt so far has been the drop in prices of cattle. Most all areas have some cattle - either for beef or dairy production - and have been affected. Costs of livestock replacements and of feeder cattle are lower and, because of less favorable outlook, some producers are carrying fewer head. In the extensive drought area of the Southwest feed shortages have forced liquidation of cattle, resulting in payment or reduction of many loans. The amount of credit used in this region in the future will depend largely on pasture and feed conditions and the extent to which ranchers and farmers restock. In the Midwest some further decline is expected because of the smaller volume of feeder loans being made this fall. In 1954 cattle prices are expected to be more stable than in either of the last 2 years and any further effect of this factor on the non-real-estate debt situation will be small.

Another important cause of the declining non-real-estate debt is the change in attitude of farmers concerning the outlook for agriculture. Many farmers are attempting to reduce borrowing by curtailing expenditures. They are in relatively good shape with respect to farm machinery, home equipment, and buildings and can often postpone further expenditures of this type. Farmers also appear to be more careful in watching day-to-day operating expenditures.

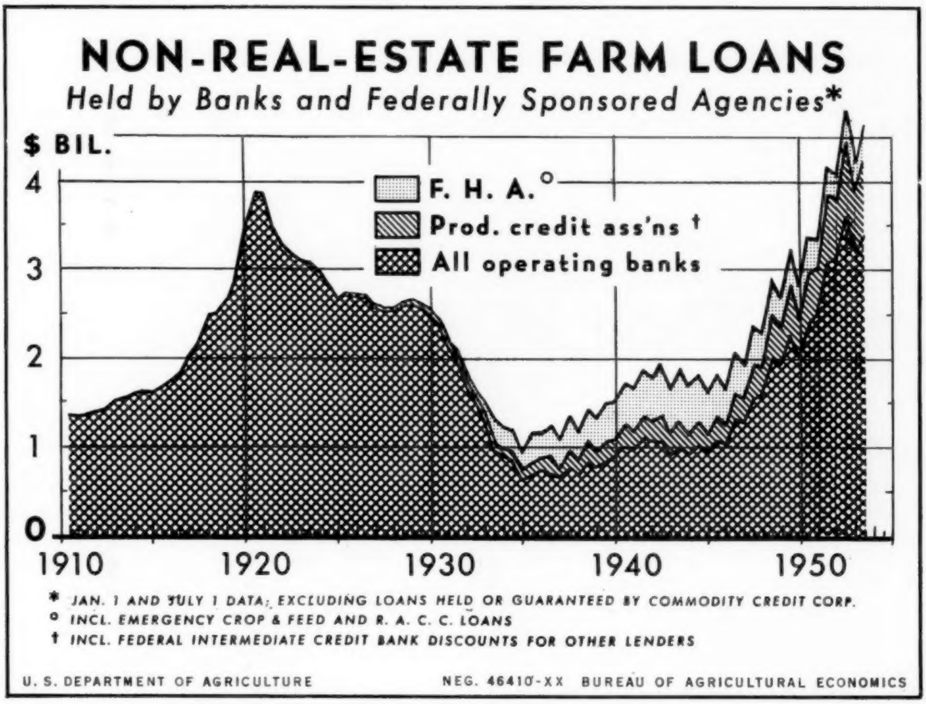

FIGURE 9

Although voluntary curtailment in the use of credit on the part of farmers and ranchers is the more important, lenders are also restricting credit in some instances. Lenders report that some farmers who recently entered farming and who have heavy debts are being asked to reduce their new borrowing so as to get their credit obligations in line with expected incomes. Many loan commitments are being limited to necessary production expenses. Expansion through the use of credit is often discouraged. In areas where production or prices have been low, lenders have been especially selective in making loans. In the Southeast there are indications that loans for the improvement of fences and pastures are being curtailed in some instances where the major source of income is from livestock. For agricultural areas as a whole, however, there continues to be enough credit for high production. Most lenders are still actively looking for sound farm loans.

The volume of short-term, non-real-estate loans refinanced with farm real estate loans has been somewhat larger in 1953 than in 1952. Refinancing has been most prevalent in the Southwest, where debts of some farmers have been accumulating for several years because of the drought and the decline last year in livestock prices. A few instances of refinancing have been reported in the Corn Belt as the result of feeder losses. Also, the increased difficulty of repaying short-term loans may

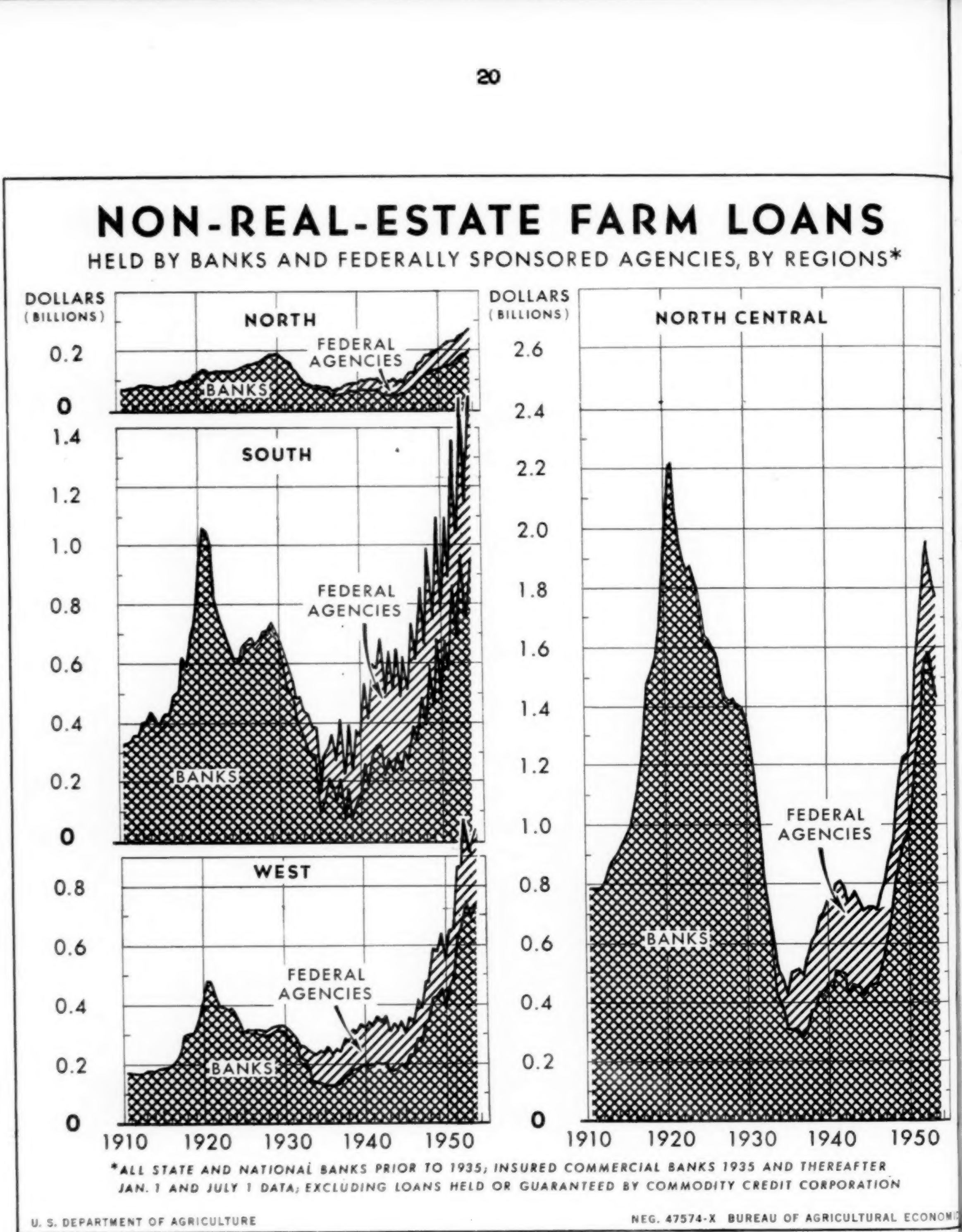
NON-REAL-ESTATE FARM LOANS
HELD BY BANKS AND FEDERALLY SPONSORED AGENCIES, BY REGIONS*
DOLLARS (BILLIONS)
NORTH
FEDERAL AGENCIES
BANKS
SOUTH
FEDERAL AGENCIES
BANKS
WEST
FEDERAL AGENCIES
BANKS
NORTH CENTRAL
FEDERAL AGENCIES
BANKS
0
0.2
0.4
0.6
0.8
1.0
1.2
1.4
1.6
1.8
2.0
2.2
2.4
2.6
1910
1920
1930
1940
1950
*ALL STATE AND NATIONAL BANKS PRIOR TO 1935; INSURED COMMERCIAL BANKS 1935 AND THEREAFTER
JAN. 1 AND JULY 1 DATA; EXCLUDING LOANS HELD OR GUARANTEED BY COMMODITY CREDIT CORPORATION
U. S. DEPARTMENT OF AGRICULTURE
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Figure 10

have caused some refinancing of debts previously incurred for major improvements. It is probable that the volume of refinancing will increase after the fall repayment season has passed and the extent of carryovers is known.

Since July the decline in non-real-estate loans has become more widespread. By January 1, 1954 it is expected that non-real-estate loans (not including price-support loans) will have declined to about $7.2 billion - nearly 6 percent less than the $7.6 billion outstanding at the beginning of 1953. The debt owed to banks and other institutional lenders may be declining at a little faster rate than that owed to other lenders such as individuals, merchants, and dealers who are handling more of the higher risk cases. A further decline in non-real-estate debt is expected in 1954 when acreage restrictions may reduce total production costs in some areas.

The volume of price-support loans outstanding at the beginning of 1954 is difficult to forecast because of the various means available to support prices and the uncertainty as to extent that such activity will be needed. However, such loans on 1953 crops are expected to be substantially greater than in 1952 and the amount of loans to farmers held or guaranteed by the Commodity Credit Corporation will probably be about $1.7 billion.

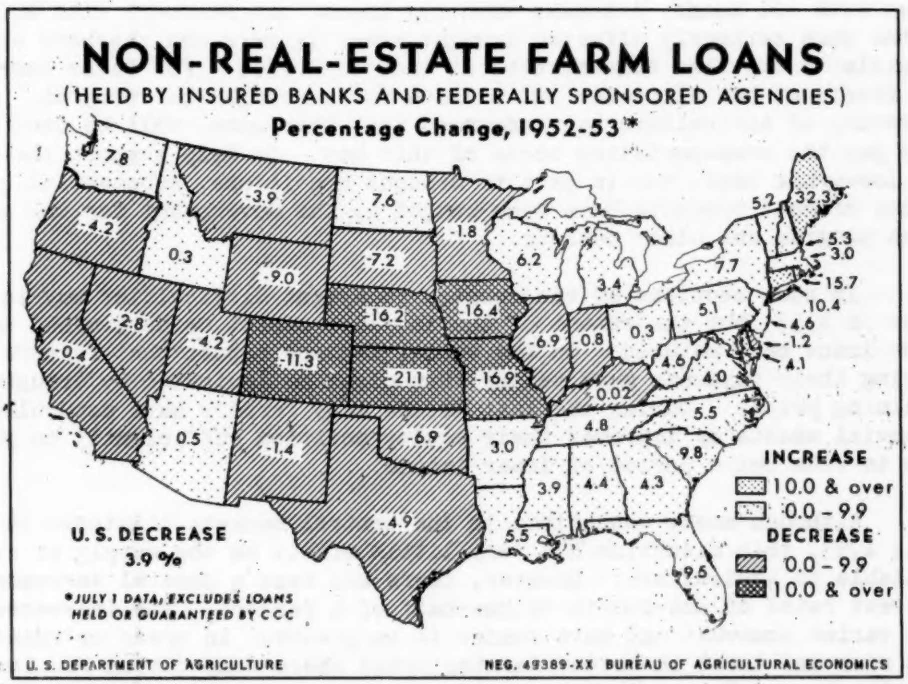

FIGURE 11

Over all, the non-real-estate debt position of farmers continues relatively sound but a few scattered areas have been experiencing more than the usual repayment difficulty. Cost-price relationships have become increasingly unfavorable in widespread areas and are having one of their first effects on debts with near-term maturities. Livestock, potato, and some other vegetable producers have had larger loan carryovers. Drought has curtailed farm income in the Southeast and other areas but has been most severe in the Southwest, where heavy investments in livestock have been involved. Although some in the drought areas have had to liquidate their operations, most have been able to carry on with the cooperation and assistance of lenders. Many lenders have continued financing farmers and ranchers for several years despite relatively small repayments.

Under the disaster loan program of the Farmers Home Administration 1,688 counties covering all of 18 States and parts of 18 more are currently designated as disaster counties. More than $43 million in Production Disaster loans were made by the FHA during the year ended June 30, 1953. Heaviest activity was in Texas, Missouri, Arkansas, and Mississippi. From June 30, 1953, through October 16, the FHA made 3,878 Production Disaster loans for about $5.6 million. Further, nearly 1,100 loans for $10 million were made by FHA through October 16 under the special livestock loan program authorized in July 1953. These livestock loans are available in all areas to farmers and ranchers who are temporarily unable to secure needed credit from other sources for the continuation of their normal livestock operations. Heaviest livestock lending activity has been in Texas with 401 loans, Arkansas with 193 loans, and Missouri with 190 loans. In the more seriously affected drought areas farmers and ranchers are eligible to buy feed concentrates at reduced prices. For these same areas the President has allocated $10 million for a drought-hay program. The Secretary of Agriculture has announced that this money will be used to help pay the transportation costs of this hay. To help support the price for low-grade beef, due in part to drought conditions, substantial quantities of meat products have been bought by the Government for the school lunch program and other outlets.

In some sections of the country repayment difficulties may increase later in 1953, but the extent of the increase cannot be determined until after loans have matured. On the whole, lenders report that farmers are meeting their payments much better than might be indicated by drought and declining prices. During the last decade many farmers have accumulated financial assets or improved their equity position sufficiently to permit them to ride out a period of lower income.

Although money conditions in the central markets tightened during early 1953, this situation had very little effect on the supply of credit available to agriculture. However, there has been a general increase in interest rates of one-fourth to one-half of 1 percent. The increases have varied somewhat and have tended to be greatest in areas of relatively high risk and least in better farming areas where competition for loans is still keen. The current level of rates is expected to continue through 1954.

Liquid Financial Assets

Total liquid assets of farmers are expected to be $19.2 billion on January 1, 1954 - about the same as a year earlier. However, the composition of these assets will probably change; a decline in currency and demand deposits is expected to be about equal to the increase in time deposits and United States savings bonds.

Time deposits and United States savings bonds, which represent savings held for relatively long-run purposes, may together increase about $400 million during 1953. The increase in these types of financial reserves appears to be widespread. Data indicate that these liquid reserves rose during the first half of 1953 even in some of the areas affected by drought. It is reported that part of the increase in the Southwest has resulted from liquidation of livestock herds. However, many individual farmers and ranchers undoubtedly have had to withdraw deposits and cash savings bonds in order to meet exceptional expenses for feed and to carry themselves through a severe decline in income. Further, as past studies have shown, a large proportion of farm people never accumulate any appreciable volume of financial reserves.

The increase during 1953 in farmer holdings of time deposits and United States savings bonds will probably be greater than for most earlier postwar years. It is resulting more from a change in the attitude of farmers concerning their future income than from any increase in funds available to them. Because of uncertainty about future farm income, some are curtailing expenditures and saving money for contingencies. The large expenditures for physical improvements and for farm and home equipment made by agriculture during the postwar years reduce the current need for such expenditures.

In contrast to the rise in reserves held by farmers for relatively long-run purposes, the cash - currency and demand deposits - held in readiness for current operating expenses is expected to decline $400 million during 1953. Farm expenditures, particularly for machinery and livestock, are down and farm operators as a whole need a smaller supply of working funds on hand. Also, cash receipts are less and short-term borrowings which often are placed in demand deposits are lower than in 1952.

During 1954 some further shrinkage in farmers' holdings of currency and demand deposits can be expected but their longer run reserves of time deposits and United States savings bonds will probably change relatively little if farm incomes approximate 1953 levels.

Farm Taxes

Farmers in nearly all States continue to pay higher taxes on their property. Taxes levied on farm real estate in 1952 (payable largely in 1953) were 5 percent higher than those of the previous year, and taxes levied on farm personal property were 9 percent higher. The prospect for 1953 levies (payable largely in 1954) is for an increase of about 3 percent in the farmers' real estate taxes and a decline in the personal

property taxes. The net results will probably be that farmers will pay about 2 percent more property taxes in 1954 than in 1953.

Federal income taxes payable by farmers in 1954 on 1953 income are expected to be down somewhat from the preceding year. The decrease is a reflection of lower farm incomes, as Federal income tax rates have remained unchanged. A further decline is anticipated in taxes on 1954 income when the scheduled reduction in Federal income tax rates takes effect.

Lower farm income in 1953 will also reduce farmers' income tax payments to State Governments. During the year, one State (Delaware) increased its personal income tax rates, while Idaho, Vermont, and North Dakota reduced their tax rates applicable to 1953 income.

Pennsylvania is now among the 32 States having a general sales tax. The tax became effective in September 1953 and the rate is 1 percent.

Total taxes paid by farmers in 1954 are expected to be slightly lower than in 1953 mainly because of the lower payments of Federal income taxes.

Insurance

The expenditures of farmers for property insurance probably will be higher in 1954 than in either 1952 or 1953. Even though farm property values and replacement costs have not risen in 1953, farmers will tend to increase their insurance. Most farm mutuals use 5-year policies, and when replacement costs are rising, there is considerable lag in the insurance carried. As policies are renewed, there is a tendency for them to be renewed for increased amounts. Because of existing underinsurance, it is expected that amounts of insurance, and therefore the premium costs of farmers, will continue to rise for some time.

Although information is not available for all classes of insurance companies and types of farm property, the insurance carried by farm mutual fire insurance companies (about a fifth of which also offer windstorm insurance) has increased steadily in recent years - 11 percent in both 1951 and 1952. The increased assessments paid by farmers to these companies have been due primarily to increases in amounts of insurance carried, rather than to increases in rates charged. The assessment rates paid by farmers to farm mutual fire insurance companies averaged about 26.1 cents per $100 of insurance in 1952, compared with 26.7 cents in 1951.

In 1952, losses paid by the farm fire mutuals amounted to about 14.2 cents per $100 of insurance in force, compared with 14.9 cents in 1951. In 1952, operating expenses amounted to 8.1 cents, compared with 8.3 cents in 1951. Therefore, the total cost (losses plus expenses) amounted to 22.3 cents per $100 in 1952, compared with 23.2 cents in 1951.

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